

FINDINGS AND RECOMMENDATIONS

FINDING 7: RECORD MAINTENANCE AND RETENTION

SYNOPSIS

DHCD did not always have required records available to substantiate the specific details of 31 subgrants and loans, totaling \$7,321,282, that were awarded to its CDCs during FY 1994 through FY 1998. As a result, we could not determine the specific nature and purpose(s) of the subgrants and loans and whether the awards were made in compliance with applicable regulations. In addition, poor record keeping can be the means to prevent the detection of waste, fraud, and mismanagement. We were informed that FY 1994 documents were destroyed and the other documents not provided were on file, but not filed in a manner in which they could be readily retrieved. We noted that the individual project managers, instead of a centrally controlled filing system, maintained project files of the Development Finance Division. In general, we attribute the lack of adequate record keeping to the general disorganization of DHCD and the lack of continuity in executive management, which in turn, caused DHCD to disregard the requirements of District regulations.

AUDIT RESULTS

For nearly 8 months, DHCD had the opportunity to provide subgrant and loan agreements that the OIG auditors had requested. In that period, the auditors met with DHCD management many times to request the documentation. In instances when DHCD did provide requested records, the records initially were incomplete and lacked modification documents and necessary attachments. Generally, but not always, the auditors obtained the modifications and attachments after repeated meetings with management. We obtained several documents from the CDCs during our site visits, because DHCD could not provide the documents. However, DHCD and the CDCs never provided documentation for the 31 subgrant and loan document numbers listed in Table C. DHCD's inability to provide timely access to its records substantially and significantly delayed the audit process for months.

In a meeting with key DHCD officials, we were informed that the records were kept or destroyed in accordance with the HUD requirements. However, the more stringent requirements of the District Government were not followed, which provides for destruction of documents only when certain requirements are met.

HUD Requirements. HUD requirements for retention of documents are stated in 24 CFR 85.42, "Retention and Access Requirements for Records." Generally, this section requires that records must be retained for three years starting on the day that the subgrantee, DHCD in this instance, submits its last expenditure report for that period. Contrary to statements by DHCD officials, DHCD is not in compliance with 24 CFR 85.42 for retaining records since DHCD has not submitted its final expenditure report for FY 1994 HUD grant funds used to finance the subgrants and loans listed for FY 1994 in Table C.

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FINDING 7: Record Maintenance and Retention

District Government Requirements. Applicable District regulations are contained in Chapter 29 and Chapter 50 of Title 1 of the District of Columbia Municipal Regulations (DCMR). Also, information on record retention is provided in General Schedule 3 and D.C. Schedule 40.

Chapter 50, "Subgrants to Private and Public Agencies," became effective May 21, 1999. It provides in section 5004.4, that agencies shall establish the official records of awarded subgrants. It provides further that agencies shall:

. . . retain the records . . . for the period required by federal and District guidelines for grant records. The active retention period is normally three years from the date when the final programmatic and financial reports are submitted to the federal grantor, or if an audit is conducted within that three-year period, the date when the audit report is officially closed. After the active retention period, District regulations require archival retention for an additional four years.

We believe it is unlikely that official grant records would be eligible for destruction within 7 years after issuance of most DHCD grants, considering the grant performance period, the usual 3-year active retention, and 4 years in archives.

While Chapter 50 is new, Chapter 29 of Title 1 of the DCMR, "Public Records Management," is not and provides for maintenance and destruction of public records. Section 2906 (a) provides that records created or received by the District shall not be destroyed, sold, transferred, or disposed of in any manner except as prescribed by law, by records retention schedules, or by other authorization approved by the Records Disposition. DHCD officials were unable to provide to us a Committee-approved records retention schedule. Without an approved records retention schedule, DHCD had no authority to destroy any grant record until Chapter 50 was published.

While DHCD does not have an approved agency records retention schedule, General Schedule 3, "Procurement, Supply, and Grant Records," was approved by the Board of Commissioners on January 26, 1965. In general, it does not provide for destruction of grant records and instead requires agencies to request disposition authority to the D.C. Archives. In addition, Schedule 40, Section 8, "Procurement, Supply and Grant Records," does not authorize the disposal of grants and grant-related records.

Chapter 29, Section 2906(b), goes on to state that each agency is responsible to develop:

- (1) Records containing adequate documentation of its organization, functions, policies, decisions, procedures, and essential transactions; and
- (2) A continuing program for the economical and efficient management of its records in compliance with the instructions and directives issued by the [Public Records] Administrator . . . , with respect to the organization, retention, disposal, storage, photographing, and microphotographing of its records.

FINDINGS AND RECOMMENDATIONS

FINDING 7: Record Maintenance and Retention

Although DHCD officials purport that many of the 31 documents listed in Table C were not destroyed, the documents were effectively lost. Without a means to access them efficiently, DHCD was not in compliance with Section 2906 that provided for efficient management of its records.

Notwithstanding HUD requirements, the District Government's record retention requirements are more stringent. The more restrictive of federal or District regulations should be applied in a particular instance.

Table C: Listing of Missing Documents³

CDC	Document	Fiscal Year					Total
		1994	1995	1996	1997	1998	
AEDC	DB CD9416	\$ 25,000					\$ 25,000
AEDC	DB EC0306					125,000	125,000
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ERCDC	DB NE0001			30,000			30,000
ERCDC	DB 000R14				100,000		100,000
ERCDC	DB NE0002			50,000			50,000
ERCDC	DB CD8888		50,000				50,000
ERCDC	DB 000R13				80,000		80,000
MANNA	EB 000R42					58,010	58,010
MANNA	DB 000R43					401,990	401,990
MANNA	DB CD9424	150,000					150,000
MHCDC	DB 000B18	300,000					300,000
MHCDC	DB 000B08	72,376					72,376
MHCDC	DB CD9425	120,200					120,200
NCNDC	DB ED0031	150,000					150,000
NCNDC	DB CD2107			240,000			240,000
WFCDC	DB CD9441		270,000				270,000
WFCDC	DB CD9457		230,000				230,000
DCCH	DB CD9403	417,663					417,663
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TOTALS		\$ 5,025,388	\$1,200,894	\$320,000	\$180,000	\$ 595,000	\$7,321,282

³ We identified 11 of these document numbers to NDAP subgrants and the remaining 20 document numbers relate to actual physical development projects, which may be a subgrant or a loan.

FINDINGS AND RECOMMENDATIONS

FINDING 7: Record Maintenance and Retention

RECOMMENDATION 7

We recommend that the Director, DHCD:

- a. Establish procedures and controls that ensure DHCD employees adhere to record keeping and retention requirements of Chapter 29 and 50 of the DCMR;
- b. Establish a continuing program to achieve efficient and economical records management so that users have ready access to documentation of the DHCD organization, functions, policies, decisions, procedures, and essential transactions in accordance with DCMR, Section 2906(b);
- c. Locate the missing documents and related files identified in Table C and mark the files so that they are retained for potential future audit by the OIG. These documents and related files should not be destroyed until the criteria provided in the DCMR has been met, or September 30, 2002, whichever is later; and
- d. Establish performance standards and elements for DHCD employees that make them accountable for maintenance of official records.

DHCD RESPONSES

Recommendation 7.a. DHCD will complete and submit its proposed Records Retention and Disposition Plan to the D.C. Office of Public Records for approval. Target Date is September 30, 2000.

Recommendation 7.b. DHCD is in contract negotiations to quantify the problem and identify the solution to achieve efficient and economical records management. A software solution is expected to allow archiving of, and access to, documents and to provide for document distribution. The contractor will provide training to the DHCD staff to ensure compliance with the records retention schedule and full use of this new management software. Original documentation will be archived and maintained in accordance with the approved Office of Public Records retention schedule. Target Date is December 31, 2000.

Recommendation 7.c. DHCD has completed action. Effective immediately, DHCD's disposition of all governmental documentation will be consistent with applicable District and federal requirements.

Recommendation 7.d. DHCD will establish a performance measure, "Maintenance of Official Records in Accordance with District and Federal Requirement," will be included in performance standards and elements for all appropriate DHCD employees.

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FINDING 7: Record Maintenance and Retention

OIG COMMENTS

DHCD's proposed action in response to recommendation 7.a. does not satisfy the recommendation by itself. However, the response to recommendation 7.b. addressed training DHCD staff, which we feel is critical to "ensuring" adherence to a proposed record retention and disposition plan or existing District law and regulation. Accordingly, we believe DHCD's overall proposal satisfies the intent of the recommendations.

The response to recommendation 7.d. was adequate to help ensure that the condition is alleviated and responsible officials are held accountable in the future. However, no target date to complete the planned action was provided.

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FINDING 8: INTERNAL AUDITING

SYNOPSIS

The Division of Audit (the Division) lacked controls to ensure the Division and its auditors meet Government Auditing Standards and had not completely fulfilled its mission to provide audit coverage to DHCD functions because of its concentration on grant subrecipients. We attributed the lack of audit coverage throughout DHCD to the lack of a planning process to weigh risks of auditable areas to fraud, waste, and mismanagement and to the placement of the Division within DHCD's Office of the Comptroller, which lacks the authority and independence to audit all aspects of DHCD. In addition, the auditors were performing functions more suitable to project monitors and accountants than auditors. As a result, the Division and its auditors have not always met generally accepted government auditing standards (GAGAS), and areas of higher risk within DHCD have not been subjected to internal audit coverage.

AUDIT RESULTS

GAGAS, functional guidance, and position descriptions support subjecting DHCD auditors and its division to GAGAS.

GAGAS. Paragraph 1.2, Government Auditing Standards (1994 Revision), requires that the inspectors general are to ensure that nonfederal auditors comply with GAGAS when they audit federal organizations, programs, activities, and functions. Paragraph 1.5, further provides that the Single Audit Act of 1984 requires that these standards be followed in audits of state and local governments that receive federal financial assistance.

While we found no written DHCD policies that stated its auditors and the Division were subject to GAGAS, the position descriptions for the auditors and the mission statement of the Division support the Division auditors' belief that they and their Division are subject to GAGAS. In addition, DHCD's initial budget for fiscal year 1999 was \$58 million of which \$34 million (59 percent) was funded with federal monies; therefore, we conclude that GAGAS does apply. We believe it is commendable that the Division auditors believed they were subject to GAGAS, although they only obtained a copy of the Government Auditing Standards during the course of this review.

Functional Guidance. Guidance for the Division is contained in the Office of the Comptroller's mission and functional statements, which provides:

The Audit Division has overall responsibility for all internal auditing functions within the Department. This includes auditing, monitoring, conducting special assignments, developing recommendations for improvement, and systems review both manual and computerized. In

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FINDING 8: Internal Auditing

addition, this Division is also responsible for the coordination of audit activities of the subrecipients of the Department.

One of the specific functions of the Division is to monitor “all audit activities of the Department [DHCD] for compliance with Federal and local laws and regulations and with financial management requirements as promulgated in local law, OMB circulars, and Federal grantor regulations.”

Position Descriptions. The position description for each of the two DHCD auditors describes the audit position in more detail. The positions were placed within the Office of the Comptroller and within the Division of Audit. The auditor’s duties are extensive and include:

- Developing audit and monitoring strategies to determine compliance with governing laws, regulations and procedures, and the adequacy of management practices by which financial operation are administered.
- Monitoring compliance with Federal and District regulations and Departmental procedures.
- Assisting the supervisor in developing annual internal audit management plans, which identify specific compliance activities and review schedules.
- Providing written reports with recommendations for corrective actions based on the results of data collection and analysis. Areas emphasized include financial management practices and operational requirements.
- Developing and maintaining a comprehensive file of documentation (working papers) with which to support all issues discussed in the report of findings.
- Maintaining continued surveillance to ensure corrective action is taken and effective compliance programs are implemented. Schedules periodic followup reviews on areas of noncompliance and management operations to ascertain the degree of progress made on specific recommendations.

These duties paralleled some of GAGAS requirements and showed that the auditors are intended to audit Federal programs. These position descriptions and the Division’s functions and mission also show that audit coverage should include all activities of DHCD and not just the areas under the control of the Office of the Comptroller.

Audit Coverage. The audit staff did not have an annual audit plan and did not provide coverage to the execution and use of Federal Grants and local funds within DHCD or other internal functions of DHCD. Notwithstanding the staff’s audit effort, the internal auditors estimated that 70 to 80 percent of their time was devoted to accounting functions, such as:

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- Preparing financial statements in preparation for a contractor's A-133 review of DHCD's financial statements (effort that could cause the auditor to lack independence when he performs a desk audit of the contractors effort);
- Converting accounts of the FMS to accounts in the new System of Accounting and Reporting; and
- Monthly reconciliation of capital fund bank accounts.

However, the Division did perform certain audit functions. These audit functions included coordinating audit efforts for the Consolidated Annual Financial Report audit and with the Office of the Inspector General, reviewing contractor audits in connection with OMB Circular A-133, and reviewing grant cost-allocation reports.

Conclusion. The Division lacks independence and authority to review effort outside the Office of the Comptroller. Paragraph 3.19, Government Auditing Standards, provides that audit organizations should report the results of their audits and be accountable to the head or deputy head of the government entity and should be organizationally located outside the staff or line management function of the unit under audit. The auditors should report, organizationally, at a level that allows them access and authority to review auditable activities of DHCD. The Division also lacks written controls that would ensure that GAGAS are followed and that an annual audit plan is prepared.

RECOMMENDATION 8

We recommend that the Director, DHCD:

- a. Move the Audit Division to the Office of the Chief Operating Officer;
- b. Expand the scope of potential audit coverage to include all DHCD activities and functions;
- c. Prepare and execute an annual audit plan with sufficient flexibility to allow for emergent (unplanned) audit work and develop the plan based on an assessment of risk of DHCD activities to fraud, waste, and mismanagement;
- d. Discontinue routine use of auditors for non-audit effort; and
- e. Revise position descriptions and organizational functional statements to require DHCD auditors and the Division to comply with Government Auditing Standards.

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FINDING 7: Record Maintenance and Retention

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FINDING 8: Internal Auditing

DHCD RESPONSE

The Chief Financial Officer requested additional time for DHCD to respond because of the seriousness of the impact of the recommendations. DHCD intends to respond to recommendations by February 29, 2000.

OIG COMMENTS

The matter remains unresolved pending receipt of responses.

FINDINGS AND RECOMMENDATIONS

FINDING 9: DHCD PROCEDURES FOR RESPONDING TO QUESTIONS FROM DISTRICT COUNCILMEMBERS

SYNOPSIS

DHCD failed to respond timely to questions by a Councilmember during a Committee hearing. DHCD ultimately provided the information as it had agreed to do but only after over 90 days had elapsed and after this office notified DHCD that it had not provided the information to the Councilmember. In responding to our recommendation to improve procedures, DHCD said, as shown in Exhibit 6, that it had reviewed its procedures and that they were adequate. We do not agree. We asked to see those written procedures that, if followed, would preclude a recurrence of the condition. DHCD did not provide the procedures for our review. We concluded that DHCD's response was misinformation and that no approved written procedures and controls existed that would preclude a recurrence of the condition. As indicated by the responses in Exhibits 4 and 6, lack of full cooperation during the audit, and failure to provide documents such as purported existing procedures for independent review indicate an underlying lack of regard and support for the audit process by DHCD.

AUDIT RESULTS

The General Accounting Office issued "Standards for Internal Control in the Federal Government," November 1999, to help policy makers and program managers better achieve agency missions and program results and improve accountability. The Federal Managers' Financial Integrity Act of 1982 required the General Accounting Office to issue such standards. We believe these standards, which revised "Standards for Internal Controls in the Federal Government, issued in 1983, are essential for local governments and are appropriate standards for District agencies.

The Control Environment Standard. This standard provides, "Management and employees should establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control and conscientious management." The General Accounting Office explains the standard more fully, in part, as follows:

A positive control environment is the foundation for all other standards. It provides discipline and structure as well as the climate [,] which influences the quality of internal control. Several key factors affect the control environment.

One factor is the integrity and ethical values maintained and demonstrated by management and staff. Agency management plays a key role in providing leadership in this area, especially in setting and maintaining the organization's ethical tone, providing guidance for proper behavior, removing temptations for unethical behavior, and providing discipline when appropriate.

Another factor is management's commitment to competence. All personnel need to possess and maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing good internal control.

FINDINGS AND RECOMMENDATIONS

FINDING 9: DHCD Procedures for Responding to Questions From District Councilmembers

Further, the attitude and philosophy of management toward information systems, accounting, personnel functions, monitoring, and audits and evaluations can have a profound effect on internal control.

Internal control also plays a significant role in helping manager achieve strategic and performance goals, and measure and report on performance. Finding 1 also addresses DHCD's lack of useful performance measures.

In our opinion, DHCD's responses are indicative of a poor control environment. Instead of trying to correct ambiguous presentations to the Committee and to correct what may have been oversights, DHCD took a defensive posture that did not indicate improvement. Unfortunately, this poor control environment stems from continued turnover of executive management as addressed in Finding 1.

Details. The details of this finding and prior DHCD responses are provided in the Exhibits, as follows:

- Exhibit 3: Management Alert Report Regarding DHCD Testimony
- Exhibit 4: DHCD's Initial Response to the Management Alert Report of September 24, 1999 (Exhibit 3)
- Exhibit 5: Letter to the Mayor, October 19, 1999; Re: (Exhibits 3 and 4)
- Exhibit 6: DHCD's Response to Exhibit 5

While DHCD did not agree to clarify to the councilmembers the ambiguous information that DHCD representatives presented during the hearing, we believe that copies of this report and the Management Information Reports adequately informed the Councilmembers of the incorrect, misleading, and ambiguous information provided by DHCD during its testimony. Also, in response to our Management Information Report, Exhibit 3, DHCD did provide the information it had agreed to provide to a councilmember, as shown in Exhibit 6. Accordingly, recommendations we made in Exhibits 3 and 7 to clarify testimony are no longer necessary.

However, the recommendation to improve its procedures in responding timely to councilmembers is still appropriate and requires corrective action. Our prior recommendation in the Exhibits to establish procedures was revised because DHCD indicated it had adequate existing procedures. Since DHCD did not provide the procedures that we requested, we were unable to determine whether procedures and controls were adequate to respond timely and that the condition noted was a one-time failure to follow its procedures. The recommendation is revised to provide the procedures and controls for OIG analysis.

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FINDING 9: DHCD Procedures for Responding to Questions From District Councilmembers

RECOMMENDATION 9

We recommend that the Director, DHCD, provide the OIG with the approved written controls and procedures that ensure DHCD responds timely to Councilmember and Committee requests for information.

DHCD RESPONSE

Formal procedures are being developed and will be reviewed by the Office of Intergovernmental Relations under the Office of the Mayor before its implementation. DHCD will provide the written controls and procedures by March 31, 2000.

OIG COMMENTS

During the course of the audit, DHCD advised in Exhibit 6 that the procedures and systems used to respond to Councilmembers questions were reviewed and found to be adequate. Accordingly, we immediately asked for those procedures. We did not receive a response. Accordingly, the draft of this report requested those procedures. Shortly before the draft of this report was provided to DHCD, management informed us that no written procedures existed.

DHCD's response satisfies the intent of the recommendation and planned action should result in controls that should preclude recurrence of late or omitted responses to Councilmembers. Since written procedures are under development, DHCD need not provide the documentation to the OIG after the procedures are developed, approved, and promulgated. Since completed actions are subject to OIG follow-up reviews, the OIG may review the procedures during follow-up reviews that may occur at DHCD subsequent to DHCD's planned completion date of March 31, 2000.

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FINDING 8: Internal Auditing

DHCD RESPONSE

The Chief Financial Officer requested additional time for DHCD to respond because of the seriousness of the impact of the recommendations. DHCD intends to respond to recommendations by February 29, 2000.

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Another factor is management's commitment to competence. All personnel need to possess and maintain a level of competence that allows them to accomplish their assigned duties, as well as understand the importance of developing and implementing good internal control.

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FINDING 9: DHCD Procedures for Responding to Questions From District Councilmembers

Further, the attitude and philosophy of management toward information systems, accounting, personnel functions, monitoring, and audits and evaluations can have a profound effect on internal control.

Internal control also plays a significant role in helping manager achieve strategic and performance goals, and measure and report on performance. Finding 1 also addresses DHCD's lack of useful performance measures.

In our opinion, DHCD's responses are indicative of a poor control environment. Instead of trying to correct ambiguous presentations to the Committee and to correct what may have been oversights, DHCD took a defensive posture that did not indicate improvement. Unfortunately, this poor control environment stems from continued turnover of executive management as addressed in Finding 1.

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FINDING 9: DHCD Procedures for Responding to Questions From District Councilmembers

RECOMMENDATION 9

We recommend that the Director, DHCD, provide the OIG with the approved written controls and procedures that ensure DHCD responds timely to Councilmember and Committee requests for information.

DHCD RESPONSE

Formal procedures are being developed and will be reviewed by the Office of Intergovernmental Relations under the Office of the Mayor before its implementation. DHCD will provide the written controls and procedures by March 31, 2000.

OIG COMMENTS

During the course of the audit, DHCD advised in Exhibit 6 that the procedures and systems used to respond to Councilmembers questions were reviewed and found to be adequate. Accordingly, we immediately asked for those procedures. We did not receive a response. Accordingly, the draft of this report requested those procedures. Shortly before the draft of this report was provided to DHCD, management informed us that no written procedures existed.

DHCD's response satisfies the intent of the recommendation and planned action should result in controls that should preclude recurrence of late or omitted responses to Councilmembers. Since written procedures are under development, DHCD need not provide the documentation to the OIG after the procedures are developed, approved, and promulgated. Since completed actions are subject to OIG follow-up reviews, the OIG may review the procedures during follow-up reviews that may occur at DHCD subsequent to DHCD's planned completion date of March 31, 2000.